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ANNUAL AUDITED REPORT
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PART III

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10 Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CUTTER & COMPANY BROKERAGE, INC.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

15415 CLAYTON ROAD

(No. and Street)

BALLWIN.

(City)

MISSOURI

(State)

63011

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

DEBORAH CASTIGLIONI636-537-8770

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

HOLT & PATTERSON, LLC

(Name - if individual, state last, first, middle name)

260 CHESTERFIELD INDUSTRIAL BLVD, CHESTERFIELD, MO 63005

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

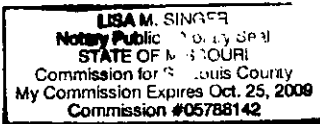
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OATH OR AFFIRMATION

I, MICHAEL PATTERSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CUTTER & COMPANY BROKERAGE, INC., as of DECEMBER 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE



Lisa Singer
Notary Public

[Signature]
Signature
[Signature]
Title

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) *STATEMENT OF CASH FLOWS*
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CUTTER & COMPANY BROKERAGE, INC.
Audited Financial Statements
For the Years Ended
December 31, 2007 and 2006

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February 14, 2008

The Board of Directors
Cutter & Company Brokerage, Inc.
Ballwin, Missouri



We have audited the accompanying statement of financial condition of Cutter & Company Brokerage, Inc. (a corporation) as of December 31, 2007 and 2006 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cutter & Company Brokerage, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplemental information located on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

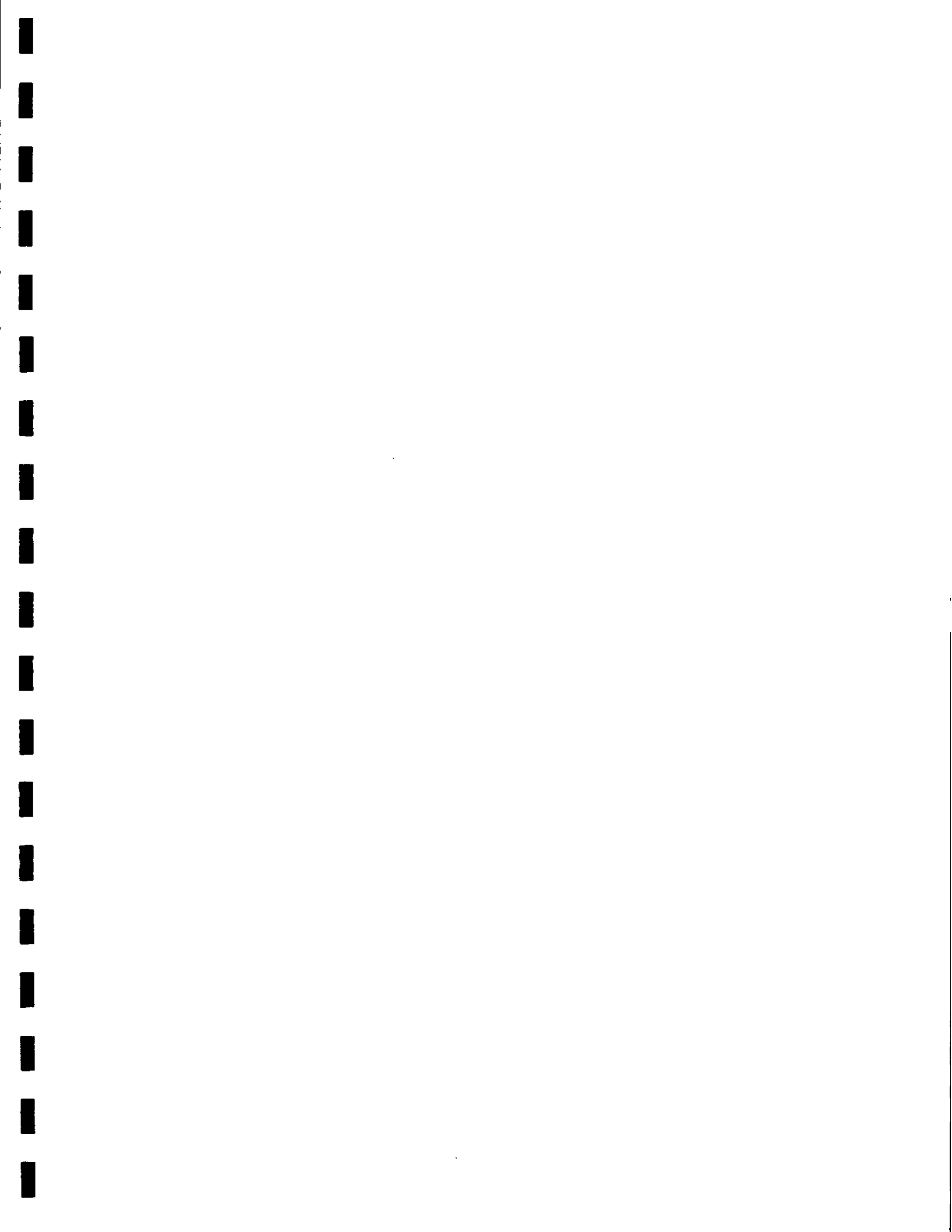
Holt & Patterson, LLC

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CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF FINANCIAL CONDITION
December 31, 2007 and 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 48,614	\$ 41,185
Accrued Wages and Commissions	184,103	238,849
401(k) Payable	24,999	39,905
Corporate Income Tax Payable	<u>4,852</u>	<u>1,808</u>
TOTAL CURRENT LIABILITIES	<u>262,568</u>	<u>321,747</u>
 LONG TERM LIABILITIES		
Deferred Tax Liability	<u>12,218</u>	<u>7,029</u>
TOTAL LONG TERM LIABILITIES	<u>12,218</u>	<u>7,029</u>
TOTAL LIABILITIES	<u>274,786</u>	<u>328,776</u>
 STOCKHOLDER'S EQUITY		
Common Stock, \$1 par value, 30,000 shares authorized, 5,000 shares issued and outstanding	5,000	5,000
Additional Paid in Capital	12,456	12,456
Retained Earnings	728,981	723,358
Accumulated Other Comprehensive Income	(103,693)	(128,026)
Current Earnings	<u>129</u>	<u>5,622</u>
TOTAL STOCKHOLDER'S EQUITY	<u>642,873</u>	<u>618,410</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u><u>\$ 917,659</u></u>	 <u><u>\$ 947,186</u></u>

CUTTER & COMPANY BROKERAGE, INC.**STATEMENT OF INCOME**

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>
OTHER INCOME				
Interest and Dividend Income	\$ 17,600	0.23	\$ 14,834	0.09
Gain on Sale - Market Security	-	0.09	5,621	-
TOTAL OTHER INCOME	<u>17,600</u>	<u>0.32</u>	<u>20,455</u>	<u>0.09</u>
OTHER EXPENSES				
Loss on Sale of Asset	<u>111,769</u>	<u>-</u>	<u>-</u>	<u>0.02</u>
TOTAL OTHER EXPENSES	<u>111,769</u>	<u>-</u>	<u>-</u>	<u>0.17</u>
INCOME BEFORE TAXES	<u>8,076</u>	<u>0.20</u>	<u>12,928</u>	<u>0.46</u>
INCOME TAX				
Federal Income Tax Expense	1,556	0.09	5,799	0.09
State Income Tax Expense	665	0.04	2,409	0.04
Deferred Federal Income Tax Expense (Benefit)	4,090	(0.01)	(644)	0.05
Deferred State Income Tax Expense (Benefit)	<u>1,636</u>	<u>-</u>	<u>(258)</u>	<u>0.02</u>
TOTAL INCOME TAX	<u>7,947</u>	<u>0.11</u>	<u>7,306</u>	<u>0.19</u>
NET INCOME(LOSS)	<u>\$ 129</u>	<u>0.09</u>	<u>\$ 5,622</u>	<u>0.27</u>

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2007 and 2006

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 2006	5,000	12,456	728,981	(128,026)	<u>\$ 618,411</u>
COMPREHENSIVE INCOME					
Net income			129		<u>129</u>
Other comprehensive income:					
Unrealized gains (losses) on securities					
Unrealized holding gains (losses) arising during the period				30,802	<u>30,802</u>
Less: reclassification adjustment					
Income tax expense related to other comprehensive income				(6,469)	<u>(6,469)</u>
Total other comprehensive income:					<u>-</u>
TOTAL COMPREHENSIVE INCOME					<u>612,071</u>
ISSUANCE OF COMMON STOCK					-
DIVIDENDS DECLARED					-
BALANCE AT DECEMBER 31, 2007	<u>\$ 5,000</u>	<u>\$ 12,456</u>	<u>\$ 729,110</u>	<u>\$ (103,693)</u>	<u>\$ 612,071</u>

CUTTER & COMPANY BROKERAGE, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 129	\$ 5,629
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	27,844	26,604
Deferred income tax expense (benefit)	5,726	(902)
Loss (gain) on exchange of marketable securities owned	(30,802)	(5,621)
Loss (gain) on sale of fixed asset	111,769	-
Decrease (increase) in notes receivable	-	-
Decrease (increase) in accounts receivable	(63,294)	(21,870)
Decrease (increase) in income tax receivable	-	-
Decrease (increase) in prepaid expenses	(4,276)	8,791
Decrease (increase) in deposits	(1,646)	804
Increase (decrease) in accounts payable	7,429	28,624
Increase (decrease) in accrued expenses	(69,659)	59,151
Increase (decrease) in corporate income tax payable	3,044	1,783
Total Adjustments	(13,865)	97,364
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	(13,736)	102,993
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	-	48,446
Purchase of marketable securities	-	(28,492)
Purchase of fixed assets	(78,623)	(9,928)
NET CASH USED IN INVESTING ACTIVITIES	(78,623)	10,026
CASH FLOWS FROM FINANCING ACTIVITIES:		
NET CASH USED IN FINANCING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,359)	113,019
CASH AND CASH EQUIVALENTS, beginning of year	338,520	225,501
CASH AND CASH EQUIVALENTS, end of year	\$ 246,161	\$ 338,520
Supplemental Disclosure:		
Interest paid	\$ 1,866	\$ 1,375
Corporate income tax paid	\$ 7,894	\$ -

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business operations:

Cutter & Company Brokerage, Inc. is a broker/dealer registered with the Securities and Exchange Commission (SEC) and is a member of various exchanges and the National Association of Securities Dealers (NASD). The Company was formed for the purpose of trading and dealing in stocks, bonds and all other types of securities. The Company does not hold funds or securities for customers, or owe money for securities to customers and does not otherwise carry customer accounts. Accordingly, the Company is exempt from SEC Rule 15c3-3 under the K(2)(ii) exemption.

Accounting method:

The accrual method of accounting is utilized by recognizing income when earned and expenses when incurred. For income tax purposes, the Company reports under the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

Concentrations of credit risk:

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include banks and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

At times throughout the year, the Company may maintain certain bank accounts in excess of the FDIC insured limits.

Cash equivalents:

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable:

The Company has elected to use the reserve method in accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account and the bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management. No allowance for doubtful accounts was considered necessary at December 31, 2007 and 2006. The bad debt expense balance at December 31, 2007 and 2006 was \$-0- and \$-0- respectively.

CUTTER & COMPANY BROKERAGE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

Marketable Securities:

Marketable securities are stated at the lower of aggregate cost or market. Market value and cost at December 31, 2006 and 2005 was as follows:

	2007	2006
Cost	\$ 244,338	\$ 244,403
Market Value	\$ 113,147	\$ 82,345

Property and Equipment:

Depreciation of property and equipment is provided for in the financial statements using the straight-line and accelerated methods over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense charged to operations for the year ended December 31, 2007 and 2006 was \$27,844 and \$26,604 respectively.

Property and equipment are summarized by the major classification as follows:

Classification	Useful Lives for Purposes of Depreciation	2007	2006
Furniture and Fixtures	5-7 years	61,807	59,397
Equipment	5-7 years	24,683	38,897
Leasehold Improvements	39 years	0	24,701
Building Improvements	39 years	35,757	149,232
Computers	5 years	114,938	107,598
Subtotal		237,185	379,825
Less: Accumulated Depreciation – Fixtures and Equipment		(150,151)	(173,050)
Less: Accumulated Depreciation – Leasehold		(2,061)	(60,813)
Subtotal		(152,212)	(233,863)
Total		<u>\$ 84,973</u>	<u>\$ 145,962</u>

The Company has not recorded depreciation in accordance with generally accepted accounting principles. The effects of this departure from generally accepted accounting principles are not material.

CUTTER & COMPANY BROKERAGE, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006

Income Taxes:

The Company has adopted SFAS 109, Accounting for Income Taxes, to account for deferred income taxes. Deferred taxes are computed based on the tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between financial and tax reporting purposes. The difference between tax expense and taxes currently payable is reflected in the balance sheet as deferred taxes. The items resulting in deferred taxes are as follows:

	<u>2007</u>	<u>2006</u>
Depreciation	\$ (58,179)	\$ (33,470)
Capital Loss Carryforward Expiring in 2007	-	2,561
Other Comprehensive Income attributable to		
Unrealized holding Losses on Securities	<u>131,256</u>	<u>162,058</u>
Total	<u>\$ 73,077</u>	<u>\$ 131,149</u>

Deferred tax assets and/or liabilities are classified as current and noncurrent based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability. At December 31, 2006 and 2005, the Company had total current deferred tax assets of \$27,564 and \$34,570, respectively and total long-term deferred tax liabilities of \$12,218 and \$7,029, respectively.

NOTE 2: RETIREMENT PLAN

In 1999 the Company adopted a 401(k) Employee Pension for all employees meeting eligibility and electing to participate. The Company matches 10% on the first 6% of compensation an employee elects to defer. In addition, the Company has the discretion each year to elect to make a profit sharing plan contribution for all eligible employees. At the beginning of 2006, the Company elected to adopt a safe harbor plan for the Company match and still maintain the discretionary profit sharing plan contributions for all eligible employees. With this plan, the Company match changed to match 100% of the first 3% withheld and 50% of the next 4th and 5th percent elected to defer. At December 31, 2007 and 2006, the Company elected to contribute an overall percentage of 5.9% and 5.7%, respectively to the profit sharing plan. The employer match and profit sharing plan contribution charged to operations for the years ended December 31, 2007 and 2006 was \$63,422 and \$66,757, respectively.

NOTE 3: COMMITMENTS AND CONTINGENCIES

The Company has obligations under operating leases with initial non-cancelable terms in excess of one year. Future aggregate annual rental for office space at December 31, 2007 is approximately \$180,250 for 2008 and 2009, and \$90,125 for 2010. The lease on the office space expires July 19, 2010. The lease has an option for renewal for 3 years. Future aggregate minimum annual rentals for the copier equipment lease at December 31, 2007 are approximately \$8,109 per year for 2008, 2009, 2010 and \$6,757 for 2011. The lease on the copier equipment is set to expire in October 2011. At that time, the Company has an option to extend the lease for an additional year.

NOTE 3: COMMITMENTS AND CONTINGENCIES(Continued)

Rent expense charged to operations for the years ended December 31, 2007 and 2006 was \$182,616 and \$103,474, respectively.

In the normal course of business, the Company is party to litigation and arbitration actions involving their broker activities. It is management's opinion that sufficient reserves have been provided for the financial statements and that errors and omission insurance coverage is adequate to provide for any significant judgments resulting from said litigation or arbitration.

NOTE 4: NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission. Under the Rule, the Company's aggregate indebtedness to all other persons cannot exceed 1500 percent of net capital. The Rule also requires that equity capital may not be withdrawn or cash dividends paid if the Company's net capital would fail to exceed 120 percent of the minimum dollar amount required. At December 31, 2007 and 2006 the Company had the following allowable net capital of \$351,960 and \$286,461, respectively, which was \$301,960 and \$236,461 in excess of the minimum required. The percentage of aggregate indebtedness to net capital at December 31, 2007 and 2006 was 76% and 112%, respectively.

NOTE 5: RECRUITING AND LEAD EXPENSE

During 2006, the Company chose to increase their recruiting efforts in order to increase their client base.

NOTE 6: RELATED PARTY TRANSACTIONS

The company has a lease with Cutter & Company Real Estate Holding, LLC which is owned by the majority stockholder. See Note 3

NOTE 7 - SIGNIFICANT CONCENTRATIONS

Generally accepted accounting principles require disclosure of current vulnerabilities due to certain concentrations. Those matters include the following:

Major Brokers

They have one broker that does 20% of their business. While this is a significant concentration, it is less of a concern as only ten percent of the earnings from their activity are reflected in the Company's revenue.

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SUPPLEMENTARY INFORMATION

CUTTER & COMPANY BROKERAGE, INC.

COMPUTATION OF NET CAPITAL

As of December 31, 2007

Net Capital Computation:

Stockholders' Equity	\$ 642,873
Deductions and/or charges	
<hr/>	
Total stockholders' equity qualified for net capital	642,873
Less: Non-allowable assets:	
Property and Equipment	84,973
Other Assets	69,280
Accounts Receivable	80,369
Prepaid Expenses	40,021
Haircut on securities	16,260
Subtotal	<hr/> 290,903
Net Capital	<hr/> <u>\$ 351,970</u>

CUTTER & COMPANY BROKERAGE, INC.
COMPUTATION OF NET CAPITAL REQUIREMENT
As of December 31, 2007

Minimum Net Capital Required (6 2/3% of Aggregate Indebtedness)	\$	17,505
Minimum Dollar Net Capital Required	\$	50,000
Net Capital Requirement (Greater of the Above)	\$	50,000
Excess Net Capital	\$	301,970
Percentage of Aggregate Indebtedness to Net Capital		75 %
Percentage of Debt to Debt-Equity		N/A

SCHEDULE OF AGGREGATE INDEBTEDNESS

Accounts Payable	\$	48,614
Income Taxes Payable		4,852
Accrued Expenses		209,101
	\$	<u>262,567</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II (Unaudited)

FOCUS Report	\$	381,746
Net audit adjustments		(29,776)
	\$	<u>351,970</u>



February 14, 2008

The Board of Directors
Cutter & Company Brokerage, Inc.
Chesterfield, Missouri

In planning and performing our audit of the consolidated financial statements and supplemental schedules of Cutter & Company Brokerage, Inc. for the years ended December 31, 2007 and 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to the customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

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CHESTERFIELD, MO 63005

PHONE 636/530-1040

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See accountants' report

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007 and 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1937 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Holt & Patterson, LLC

END